

Message Text

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R 250551Z APR 75

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 9687

SECDEF WASHDC

INFO CINCPAC

S E C R E T SECTION 1 OF 4 SEOUL 2909

NOFORN

E.O. 11652: GDS

TAGS: MASS, KS

SUBJECT: FY 76-81 SECURITY ASSISTANCE PLAN

BEGIN SUMMARY: THIS MESSAGE CONTAINS MY OVERALL ASSESSMENT OF THE NEED FOR, EFFECTIVENESS OF, AND INTERRELATIONSHIP BETWEEN THE VARIOUS ELEMENTS OF US SECURITY ASSISTANCE (SA) PLANNED FOR KOREA FOR FY 76-81 AS REQUESTED IN STATE 15489. ALSO AS REQUESTED IT EVALUATES (A) SIGNIFICANT TRENDS TOWARDS HOST COUNTRY SELF-SUFFICIENCY IN DEFENSE FINANCE AND PROCUREMENT AND (B) THE IMPACT ON SECURITY ASSISTANCE REQUIREMENTS OF OTHER US ECONOMIC ASSISTANCE AND THIRD COUNTRY, AND INTERNATIONAL INSTITUTIONAL ASSISTANCE.

OUR CONCLUSIONS REGARDING PLANNED SA ARE THAT THE ADJUSTMENTS INITIATED A YEAR AGO TO INCREASE FMS CREDIT/GRANT AID RATIO AND INCORPORATED IN THIS YEAR'S POM CONTINUE TO BE APPROPRIATE, ALTHOUGH WE MAY BE FORCED TO REDUCE GRANT AID EVEN FASTER THAN SCHEDULED, AND WE SHOULD SEEK CHANGES IN LEGISLATION NOW HOBBLING EDA FOR KOREA. MAJOR
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PROBLEM WE NOW FACE IS MEETING ROK DEMANDS FOR TECHNOLOGY AND ADVANCED WEAPONS TRANSFER. WE BELIEVE WE SHOULD BE FORTHCOMING IN ASSISTING ROK, EXCEPT WHERE ROK DESIRES RUN COUNTER TO OUR

BASIC SECURITY INTERESTS. IMMEDIATE FOREIGN EXCHANGE STRINGENCIES ROKG IS FACING ARE EXERTING PRESSURES ON DEFENSE AS WELL AS OTHER SECTORS OF ECONOMY, BUT WE DO NOT FORESEE THIS CREATING MAJOR PROBLEMS FOR OUR SA PROGRAM AND WITH ANTICIPATED RECOVERY OF WORLD ECONOMY AND ROK GROWTH RATES,ROKG DEFENSE PLANS SHOULD PROVE MANAGEABLE. END SUMMARY.

SA NEED, EFFECTIVENESS, AND INTERRELATIONSHIPS

1. THE BASIC STRATEGIC INTEREST OF THE UNITED STATES ON THE KOREAN PENINSULA CONTINUES TO BE PREVENTION OF HOSTILITIES. BALANCING THE NORTH KOREAN THREAT AND MILITARY CAPABILITY AGAINST CURRENT ROK DEFENSE CAPABILITY IT IS CLEAR THAT CONTINUED RAPID MODERNIZATION OF ROK FORCES WILL HELP FULFILL OUR INTERESTS AND THAT THE BASIC GOALS OF ROK MODERNIZATION REMAIN VALID. THE ROK/US AD HOC COMMITTEE THAT EVALUATES MILITARY REQUIREMENTS HAS ESTIMATED RELATIVE ROK SELF-SUFFICIENCY IN DEFENSE WILL REQUIRE \$2.6 BILLION IN PROCUREMENT FROM FY 75 THROUGH FYNMCQM GRANT AND CREDIT MODERNIZATION EXPENDITURES FUNDED AND PLANNED FOR THE PERIOD TOTAL \$1.1 BILLION, LESS THAN HALF OF THIS OVERALL NEED.

2. WHILE STRATEGIC JUSTIFICATION FOR MODERNIZATION REMAINS UNDIMINISHED, AS INDICATED IN LAST YEAR'S OVERALL ASSESSMENT ROK ECONOMIC ABILITY TO PICK UP INCREASING SHARE OF THE BILL FOR ITS OWN SECURITY IS IN LONG TERM INCREASING RAPIDLY AND JUSTIFICATION FOR GRANT ASSISTANCE HAS DECLINED AND WILL CONTINUE TO DO SO. ROK STATEMENTS AND ACTIONS THROUGHOUT 1974 TO PRESENT BEAR OUT THEIR ACCEPTANCE OF THIS FACT. THEY ARE READY TO ACCEPT CREDIT INSTEAD OF GRANT IN FULFILMENT OF MODERNIZATION GOALS. HOWEVER, THEY STILL MAINTAIN THAT \$345 MILLION GRANT AID (FY 75-77) IS DUE THEM TO COMPLETE THE 1971 MOD PLAN. SINCE OIL CRISIS AT END OF 1973 ROKS HAVE HAD ECONOMIC AND BALANCE OF PAYMENTS PROBLEMS WHICH
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WILL BE PARTICULARLY ACUTE IN 1975 AND WILL PROBABLY REMAIN SERIOUS THROUGH 1977. IMPROVEMENT IN KOREAN EXPORTS AND BOP IS EXPECTED TO BEGIN IN 1976 AND WE EXPECT AT LEAST A TREBLING OF ANNUAL FX EARNINGS TO OVER \$16 BILLION BY 1981. DESPITE THIS AND CRITICAL NATURE OF FINANCING PROBLEM ROKS WILL HAVE IN NEXT SIX MONTHS, MAINTAINING PAST RATES OF DIRECT DEFENSE FOREIGN EXCHANGE EXPENDITURE AT 2.5 TO 3 PERCENT OF TOTAL FOREIGN EXCHANGE EXPENDITURES AS ROKS NOW PLAN SHOULD BE POSSIBLE AND THIS WILL ENABLE KOREANS TO MEET PLANNED PROCUREMENT GOALS, GIVEN REASONABLE AMOUNTS OF FMS CREDIT.

GRANT ASSISTANCE

3. WE CONTINUE TO BELIEVE IT IN OUR INTEREST TO PROVIDE SUFFICIENT GRANT IN FY 1975 TO COVER THE LAST PAYMENT ON THE F-5ES PROGRAMMED AND ALSO TO PROVIDE MODEST AND DECLINING AMOUNTS OF GRANT ASSISTANCE IN FY76 AND 77 TO COVER REMAINING MODERNIZATION PROGRAM AIRCRAFT REQUIREMENTS AND FAST BOATS PLUS PCH&T, TRAINING, AND UN AND MAAG SUPPORT COSTS. IN FACT, WE ANTICIPATE WE MAY ACTUALLY BE FORCED TO CUT GRANT LEVELS EVEN MORE THAN NOW PLANNED IN FY 76 AND 77 AND IN THIS EVENT WE BELIEVE IT IMPORTANT THAT FMS CREDIT BE SUBSTITUTED. ROKS, WHO HAVE ALREADY ACCEPTED CUTS FROM GRANT LEVELS PREVIOUSLY FORECAST, WILL HAVE LITTLE CHOICE BUT TO ACCEPT FURTHER GRANT CUTS, ALBEIT THEY WILL DO SO MOST RELUCTANTLY; BUT IF FMS CREDIT IS NOT SUBSTITUTED THEY WILL CONSIDER IT MAJOR RENEGING ON OUR PAST "COMMITMENTS," AND PARTICULARLY AT THIS TIME IN WAKE OF INDOCHINA DEVELOPMENTS ROKS WOULD BE MOST SENSITIVE TO ANY SUCH ACTION.

4. IN LATTER YEARS OF PROGRAM FY 77-81 IT IS IMPORTANT THAT MODEST AMOUNTS OF GRANT FOR TRAINING AND UN AND MAAG COSTS CONTINUE TO BE ALLOCATED BECAUSE NEITHER CREDIT NOR ROK CASH PAYMENT OF THESE COSTS WOULD BE APPROPRIATE. ADDITIONAL VERY SMALL EXTRA AMOUNTS OF GRANT WOULD PROVIDE US USEFUL FLEXIBILITY IN FUTURE.

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NOFORN

FMS
5. NEW HIGHER FMS CREDIT LEVELS PROVIDED IN THIS YEAR'S (FY 77-81) POM GUIDANCE AND IN POM ITSELF ARE IN ACCORD WITH RECOMMENDATIONS IN EMBASSY ASSESSMENT

OF A YEAR AGO TO SHIFT EMPHASIS FROM GRANT TO CREDIT AND ARE APPROPRIATE IN OUR VIEW EXCEPT, AS INDICATED, THAT IF GRANT IS CUT FURTHER THAN PLANNED EVERY EFFORT SHOULD BE MADE TO SUBSTITUTE COMPENSATING FMS. THE FMS PROGRAM RECOMMENDED IS RATIONAL IN THAT IT MAINTAINS HIGHER NET INFLOWS IN IMMEDIATE NEXT TWO YEARS WHEN ROK FX REQUIREMENTS WILL BE UNDER GREATEST PRESSURES. THESE PRESSURES SHOULD DECLINE OVER FIVE YEAR PROGRAM PERIOD, BUT AT SAME TIME THE DEBT REPAYMENT BURDEN WILL GROW. AS CONSEQUENCE, FMS CREDIT LEVELS PROGRAMMED FOR LATTER YEARS WILL BE JUST SUFFICIENT TO MAKE SMOOTH TRANSITION FROM NET US MILITARY ASSISTANCE INFLOW LEVEL OF \$143 MILLION IN 1977, (EXCLUDING INTEREST CHARGES) DOWN TO \$3 MILLION NET INFLOW IN 1981, WHEN PRINCIPAL REPAYMENTS WILL HAVE RISEN TO ESTIMATED \$117 MILLION.

6. FULFILLING PROJECTED FMS CREDIT LEVELS IS ALSO
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IMPORTANT IF WE ARE TO MEET ROK EXPECTATIONS AND TO FACILITATE TRANSITION FROM LARGE GRANT PROGRAMS

OF PAST TO COMMERCIAL FINANCING. IN THE YEARS FY75 THROUGH FY77 ROUGHLY 70 PERCENT OF THE TOTAL FMS CREDIT IS ALREADY SCHEDULED FOR ON GOING AND APPROVED PROJECTS WHICH ROKS FULLY EXPECT US TO FINANCE. THESE INCLUDE: M-16 CO-PRODUCTION, ARSENAL EXPANSION, TOW, STANDARD ARM, IMPROVED HAWK, MISSILE MAINTENANCE DEPOT, AND RADIO CO-PRODUCTION. MOST OF THE REMAINING FMS CREDIT PROGRAMMED IN THIS YEAR'S POM IS FOR GFE PORTIONS OF HIGH PRIORITY MISSILES AND MUNITIONS PROJECTS. FMS CREDIT FOR GFE AND SOME CONCURRENT SPARE PARTS WILL BE NECESSARY TO REDUCE AND THEREBY ATTRACT THE COMMERCIAL CREDIT REQUIRED TO FINANCE THE BALANCE OF THESE PROJECTS. THE RELATIVELY SMALL AMOUNTS OF FMS CREDIT LEFT OVER AFTER THE ABOVE AMOUNTS ARE ADDED UP WILL BE NECESSARY WE BELIEVE TO HELP US COMPETE IN THOSE EQUIPMENT AREAS WHERE THIRD COUNTRY SUPPLIERS WILL HAVE BEST CHANCE TO MOVE IN.

7. OVERRIDING ALL THESE CONCERNS OF COURSE IS THE ROKG EXPECTATION THAT WE WILL CONTINUE TO FACILITATE ITS MILITARY PURCHASES WITH SUBSTANTIAL LEVELS OF FMS, NOT ONLY TO MEET REAL NEEDS BUT AS A CONTINUING MANIFESTATION OF OUR CLOSE SECURITY RELATIONSHIP. TO CEASE OR SHARPLY CURTAIL PROGRAMMED FMS CREDIT ASSISTANCE WOULD COME AS A PSYCHOLOGICAL BLOW AND COULD PROPEL THE ROK ALONG A MORE INDEPENDENT COURSE DETRIMENTAL TO OUR POLITICAL AS WELL AS COMMERCIAL INTEREST. OUR OVERALL SECURITY ASSISTANCE PROGRAM (GRANT AID, EDA, AND FMS CREDITS LESS REPAYMENT OF

PRINCIPAL ON FMS CREDITS) HAS DIMINISHED RAPIDLY RELATIVE
TO THE ROKG OWN EXPENDITURE -- IN CY 75 IT WILL
BE LESS THAN 20 PERCENT OF THE TOTAL ROK EFFORT; IT
WILL BE DOWN TO LESS THAN ONE PERCENT BY 1981; AND SA IN CY 75
WILL BE LESS THAN KOREAN FX EXPENDITURES FOR MILITARY
PROCUREMENT. THUS, OUR SA IS NO LONGER AS VITAL TO THE ROKS
AS IT ONCE WAS AND NO LONGER PROVIDES US THE LEVERAGE IT DID
IN THE PAST. ON OTHER HAND IT REMAINS AN IMPORTANT POLITICAL
VOTE OF CONFIDENCE AS WELL AS ADJUNCT TO US SECURITY AND
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COMMERCIAL INTERESTS THAT WILL HELP US TO MAINTAIN THE
CLOSE RELATIONSHIP OF THE PAST ON A NEW MORE EQUAL
PARTNERSHIP BASIS;

EDA

8. WHILE GRANT AND FMS CREDIT ARE THE MORE IMPORTANT
AREAS OF SECURITY ASSISTANCE TO KOREA, EXCESS DEFENSE
EQUIPMENT WE HAVE TURNED OVER HAS BEEN SIGNIFICANT
AS WELL. WE HAVE NOW PROVIDED \$146 MILLION OF THE
\$250 MILLION EDA LEVEL PLANNED IN THE ORIGINAL FIVE
YEAR MOD PLAN. UNFORTUNATELY, BECAUSE SPECIAL PROVISIONS
OF THE 1974 FOREIGN ASSISTANCE ACT FOR KOREA INCLUDE
EDA UNDER KOREA'S SA STATUTORY CEILING AND CHARGE
EDA AGAINST THIS CEILING AT FULL ACQUISITION VALUE,
THERE IS STRONG INHIBITION AGAINST ROKS USING EDA
IN FUTURE. OUR PRESENT PLANS TO TRANSFER THE AIR
DEFENSE RESPONSIBILITY TO THE ROK, SPECIFICALLY OUR
NIKE HERCULES AND LATER OUR HAWK BATTALIONS, WILL
BE DEFINITELY HOBbled IF THE ROKS CANNOT WRITE THESE
TRANSFERS OFF AT THE 33 1/3 PERCENT RATE (ALLOWED
OTHER COUNTRIES) AGAINST AN EDA BALANCE PLANED OUTSIDE
THE STATUTORY CEILING. CHANGES IN OR EXCEPTIONS
TO LEGISLATION ARE CALLED FOR TO FACILITATE SHIFT
OF THE AIR DEFENSE RESPONSIBILITY AT A MINIMUM.

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NOFORN

TRENDS IN SELF-SUFFICIENCY

9. AS DESCRIBED FULLY IN THIS YEAR'S POM SUBMISSION, MOST STRIKING RECENT DEVELOPMENT IN THE SECURITY FIELD HAS BEEN THE RAPID AND COMPREHENSIVE MOVE BY SOUTH KOREA TOWARD SELF-SUFFICIENCY AND ITS DRIVE TO OBTAIN UP TO DATE TECHNOLOGY AND MODERN WEAPONS. SINCE THE 1973 SECURITY CONSULTATIVE MEETING WHEN THIS OBJECTIVE WAS FIRST STATED IN A JOINT PUBLIC RELEASE, KOREA HAS CONTINUED TO MAKE RAPID STRIDES IN AREAS OF PLANNING, PROGRAMMING, AND BUDGETING OPERATIONS, LOGISTICS, RESOURCE AND MATERIEL ACQUISITION MANAGEMENT, DEPOT LEVEL MAINTENANCE, PRODUCTION, AND RESEARCH AND DEVELOPMENT. FORTY-FIVE LOCAL KOREAN FIRMS HAVE BEEN DESIGNATED DEFENSE INDUSTRY FIRMS AND IN ADDITION TO RADIO CO-PRODUCTION SCHEME THEY ARE OR WILL SOON BE PRODUCING M-16S, PATROL BOATS, VARIOUS KINDS OF AMMUNITION, 60 AND 81 MM MORTARS, GRENADES, AND 105 AND 155 HOWITZERS AND 106 RECOILLESS RIFLES. AT SAME TIME DYNAMIC ROK AGENCY FOR DEFENSE DEVELOPMENT ALREADY HAS PROVEN CAPABILITY IN WEAPONS SELECTION
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ANALYSES, PROTOTYPING, AND ENGINEERING SUPPORT FOR PROCUREMENT AND PRODUCTION, WITH MAJOR SAVINGS THE OBJECTIVE, IT IS ALSO NOW MOVING INTO CREATIVE FIELDS DEVELOPING AND ADAPTING WEAPONS AND MATERIEL TO KOREAN REQUIREMENTS.

10. PROGRESS TOWARD SECURITY SELF-SUFFICIENCY SHOWS UP EVEN MORE DRAMATICALLY IN FINANCIAL TERMS. ROKS BORE 66.2 PERCENT OF THEIR TOTAL DEFENSE BURDEN, (SPENDING \$461 MILLION) IN CY 1973, COVERED 78.9 PERCENT IN 1974, AND WILL COVER OVER 99 PER CENT (MORE THAN \$1.1 BILLION) BY 1981. (CURRENT EMBASSY ESTIMATE IS MINIMUM \$1.15 BILLION, INSTEAD OF \$1.67 BILLION GIVEN IN POM.) ROK DIRECT FX DEFENSE EXPENDITURES SHOULD GROW FROM \$185 MILLION IN 1975 TO \$403 MILLION IN 1981 AS RESULT OF INCREASED FMS CASH PURCHASES (FROM \$116.6 MILLION IN 1975 TO \$169 MILLION IN 1981), FROM SERVICE OF FMS CREDITS (FROM \$22.1 MILLION IN 1975 TO \$141 MILLION IN 1981), AND FROM CASH AND SERVICE FOR COMMERCIAL PURCHASES (FROM \$4.6 MILLION IN

1975 TO \$94 MILLION IN 1981), PLUS \$42 MILLION IN OTHER
FX EXPENDITURES IN 1975. OF THE COMMERCIAL PAYMENTS,
WE ESTIMATE THAT THE LARGE MAJORITY OF THE TOTAL WILL
BE TO THE US, WITH SUCH ROK EXPENDITURES RISING FROM
ZERO IN 1975 TO \$87 MILLION IN 1981. ON BASIS PRESENT
INDICATIONS WE EXPECT TOTAL CASH AND SERVICE PAYMENTS
FOR COMMERCIAL PURCHASES FROM THIRD COUNTRIES TO
RISE FROM \$4.6 MILLION IN 1975, TO PEAK AT \$23 MILLION
IN 1978, AND THEN TO DROP TO \$7 - \$8 MILLION A YEAR
IN 1979-81. (EMBASSY USES SOME ALTERNATIVE ASSUMPTIONS
TO THOSE IN POM, WHICH RESULT IN SOME DIFFERENT FIGURES).

11. AT SAME TIME US WILL DO PROPORTIONATELY MUCH LESS.
NET US SECURITY ASSISTANCE AFTER PRINCIPLE REPAYMENTS IS
CALCULATED TO DECLINE FROM \$235 MILLION IN CY 1973 AND \$145
MILLION IN 1975 TO ONLY \$3 MILLION IN 1981. (IT IS NOTABLE
THAT IN 1975 KOREA'S FX DEFENSE EXPENDITURES WILL EXCEED
U.S. SECURITY ASSISTANCE FOR FIRST TIME). NOR WILL THERE
BE SECURITY GRANT ASSISTANCE FROM THIRD COUNTRIES TO
HELP, ALTHOUGH SOME THIRD COUNTRIES, PARTICULARLY FRANCE,
ARE ALREADY SHOWING INTEREST IN EXTENDING CREDITS
FOR PROCUREMENT OR PRODUCTION OF SELECTED WEAPONS SYSTEMS.
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12. THERE IS NO QUESTION BUT THAT THE ABOVE PLANS COMPRISE
A RISK, SINCE IMMEDIATE FUTURE OF THE ROK ECONOMY ITSELF
GIVEN PRESENT WORLD ECONOMIC SITUATION IS IN
SOME DOUBT. BUT IT IS A REASONABLE RISK, AND
WE CONCLUDE THAT DESPITE PLANNED PROGRESSIVE
REDUCTIONS IN NET U.S. SECURITY ASSISTANCE, ROK
DEFENSE EXPENDITURES SHOULD POSE NO SERIOUS LONG-
TERM FINANCING PROBLEM PROVIDED ROK MAINTAINS ITS
CREDITWORTHINESS DURING 1975, WHICH WILL BE THE SECOND
SUCCESSIVE YEAR OF HEAVY BALANCE OF PAYMENTS DEFICITS
(SEE SEOUL 2528 AND 947), AND PROVIDED RAPID GNP AND
EXPORT GROWTH RESUME IN 1976. IF WORLD RECOVERY DOES
NOT TAKE PLACE, ROKS WILL HAVE A CHOICE BETWEEN SLOWING
DOWN DEFENSE TIME TABLE OR MAINTAINING SECURITY RATES
OF GROWTH AT EXPENSE OTHER SECTORS OF ECONOMY.

13. AS HAS BEEN CLEAR FOR SOME TIME LESSON IN ROK
DRIVE TOWARD SELF-SUFFICIENCY IN DEFENSE, WHICH IS
BEING REENFORCED BY RECENT DEVELOPMENTS IN INDOCHINA,
IS THAT ROKS ARE NO LONGER SECURITY CLIENTS BUT
INCREASINGLY SECURITY PARTNERS. THEY CONTINUE TO
LOOK FIRST TO US FOR DEFENSE ARTICLES, ASSISTANCE, AND
GUIDANCE -- THEY REITERATE THIS POINT CONSTANTLY AND
IT HAS BEEN CONFIRMED BY THEIR ACTIONS EXCEPT IN
CASE OF EXOCET MISSILE FROM FRANCE. BUT THEY NOW
CONSIDER THEY HAVE OPTIONS AND AS IN EXOCET CASE
WILL RESORT TO THEM IF THEY BELIEVE IT NECESSARY.
QUITE ASIDE FROM PROVIDING CREDITS WE MUST

ADOPT POSITIVE AND FORTHCOMING ATTITUDE IN HELPING
ROKS FULFILL THEIR SELF-SUFFICIENCY GOALS. THIS
MEANS CUTTING THROUGH BUREAUCRATIC TANGLES,
SERVICING THEIR REQUESTS AS RAPIDLY AS POSSIBLE, AND
AVOIDANCE OF HAGGLING OVER RELATIVELY SMALL ISSUES.

14. IN ADDITION, AND MOST IMPORTANT, IT ALSO MEANS
ADOPTING RECEPTIVE ATTITUDE TO ROK REQUESTS FOR
TECHNOLOGY AND MODERN WEAPONS GENERALLY AVAILABLE IN
WORLD AND NOT DETRIMENTAL TO OUR BASIC INTERESTS TO
GIVE. ROKS BELIEVE THEY MUST PLAN ON ASSUMPTION THAT
UNC FORCES WILL AT SOME POINT BE WITHDRAWN. AS HAS
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BEEN REPEATEDLY MADE CLEAR IN RECENT EMBASSY REPORTING
CONSEQUENT KEY ELEMENT IN SELF-SUFFICIENCY DRIVE IS
MAJOR PREOCCUPATION AT HIGHEST LEVELS ROKG WITH
OBTAINING MOST UP TO DATE TECHNOLOGY AND WEAPONS,
AND PRODUCTION AND MAINTENANCE CAPABILITY TO GO WITH IT.
WHILE WE WISH TO AVOID PRECIPITATING TECHNOLOGY AND
ADVANCED WEAPONS RACE ON KOREAN PENINSULA, WE BELIEVE
THERE ARE MANY THINGS WE CAN APPROVE (I.E. LOCKHEED
PROPELLENT PLANT, NIKE HERCULES IMPROVEMENT,
INFORMATION ON PRECISION GUIDED MUNITIONS)
WITHOUT DOING THIS. BY PROCEEDING ON THIS TACK
MOREOVER, WE PUT OURSELVES IN BEST POSITION TO
WIELD COUNTERVAILING INFLUENCE IN CURBING ROK
DESIRES IN AREAS WE CLEARLY DO NOT WANT THEM TO DEVELOP.
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NOFORN

IMPACT OF OTHER ECONOMIC AND MILITARY ASSISTANCE ON
KOREAN SECURITY AND SA PROGRAM

15. IN ANNUAL ASSESSMENT ONE YEAR AGO IT WAS CALCULATED THERE WOULD BE TOTAL NEED FOR ROUGHLY \$1.5 BILLION OF NON-MILITARY FOREIGN FINANCING PER YEAR UNTIL 1981 IN ORDER TO MEET ROKG GROWTH TARGETS. TOTAL NET ECONOMIC ASSISTANCE FROM ALL PUBLIC SOURCES, INCLUDING THIRD COUNTRIES AND INTERNATIONAL INSTITUTIONS (ON EXPENDITURE BASIS) IS ASSUMED TO RANGE DOWNWARD FROM \$475 MILLION TO ROUGHLY \$400 MILLION DURING 1975 THROUGH 1978. REMAINDER TOTAL REQUIREMENT WOULD BE FILLED BY COMMERCIAL TYPE LOANS AND THROUGH INVESTMENT. BEYOND 1978 IT IS ASSUMED THAT ROK BOP WILL HAVE IMPROVED SUFFICIENTLY TO PERMIT A REDUCTION IN PUBLIC LOANS AND FINANCING OF ALMOST ALL DEFENSE FX COSTS THROUGH EXPORT EARNINGS AND NORMAL COMMERCIAL BORROWING. IT IS CALCULATED THAT IF ROK FULFILLED THESE REQUIREMENTS AND RAN INTO NO UNEXPECTED DRAMATIC SHORTFALLS IN BALANCE OF PAYMENTS, PLANNED DEFENSE EXPENDITURES, INCLUDING US SECURITY ASSISTANCE, WOULD BE MANAGEABLE.

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16. IN FACT KOREANS ARE IN MIDST OF EXCEPTIONALLY BAD YEAR IN BALANCE OF PAYMENTS TERMS IN 1975 WITH CURRENT ACCOUNT DEFICIT ESTIMATED AT \$2.4 BILLION. THE \$185 MILLION PLANNED FOR THIS YEAR'S DEFENSE FOREIGN EXPENDITURES IS ONLY A SMALL FRACTION OF THIS BIGGER PROBLEM. PRESSURES HOWEVER, ARE CLEARLY BEARING IN ON DEFENSE SECTOR OF ECONOMY AS ON OTHER AREAS AND HAVE ALREADY INDUCED ALTERATION AND/OR POSTPONEMENT OF SOME PLANS. RECENT ROK EFFORTS TO STRETCH OUT F-4D PAYMENTS, REEVALUATION OF F-5E CO-PRODUCTION SCHEME AND POSTPONEMENT OF PLANS TO PURCHASE SUBMARINES AND POSSIBLY OTHER EQUIPMENT ARE REFLECTIONS OF THIS PRESSURE. ROKG IS CLEARLY BEING FORCED TO FACE UP TO PROBLEM OF ESTABLISHING MORE REALISTIC PRIORITY LIST OF DEFENSE NEEDS. IN THE PROCESS IT IS POSSIBLE THAT THERE MAY BE SOME ALTERATION IN MODERNIZATION PRIORITIES AND SOME FURTHER CHANGES IN PLANS. ALSO WE HAVE ALREADY DETECTED EFFORTS ON THE PART OF MND TO REDUCE COSTS OF OPERATIONS AND MAINTENANCE BUDGET, WHICH ROKS NOW FULLY FINANCING ON THEIR OWN, ALTHOUGH WE HAVE NOT DETECTED ANY EVIDENCE THAT THIS COST CUTTING IS AFFECTING READINESS POSTURE. INCIDENTALLY, IMMEDIATE FOREIGN EXCHANGE PRESSURES HAVE PROVIDED ADDED IMPETUS TO ROK PRESSURES ON US TO EXPORT PRODUCTS FROM THEIR SA SUPPORTED CO-PRODUCTION

PLANTS (I.E. M-16, AND SUCH SELF-FINANCED PROJECTS AS AMMUNITION AND MORTARS) TO THIRD COUNTRIES. THIS AREA NEEDS TO BE LOOKED INTO IN DEPTH.

17. IN LONGER TERM WE CONTINUE TO BELIEVE THAT IF RAPID EXPORT GROWTH RESUMES IN 1976 AS ANTICIPATED AND OVERALL ECONOMIC MANAGEMENT CONTINUES TO BE SOUND, KOREA WILL BE ABLE TO ATTRACT NECESSARY PUBLIC AND PRIVATE FINANCING AND ECONOMIC AND SECURITY TARGETS INCLUDING PLANNED US AND THIRD COUNTRY PURCHASES OF DEFENSE EQUIPMENT WILL REMAIN FEASIBLE. AS NOTED SEOUL 1279 PROJECTED US AND THIRD COUNTRY PURCHASES FOR 1975/1977 COULD HAVE A MORE SERIOUS ADVERSE PSYCHOLOGICAL EFFECT ON
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POTENTIAL LENDERS (INCLUDING IMF AND IBRD) THAN ON OVERALL BALANCE OF PAYMENTS WHICH WILL ONLY BE marginally effected in those years. WE CONTINUE TO CAUTION THE KOREAN OFFICIALS ALONG THESE LINES AND TO ENCOURAGE THEIR EFFORTS TO TAKE A HARD LOOK AT MARGINAL DEFENSE NEEDS AS WELL AS TO RECOMMEND TO ROKG OFFICIALS AVOIDANCE OF NEW DEFENSE FX PURCHASES BEYOND THOSE ALREADY PLANNED.

A FINAL CAVEAT

18. FOREGOING ANALYSIS AND RECOMMENDATIONS ARE ALL BASED ON ASSUMPTION THAT OUTCOME OF INDOCHINA SITUATION, IN TERMS CHINESE/SOVIET ATTITUDES TOWARD US PRESENCE IN KOREA AND THEIR INTEREST IN RESTRAINING DPRK ADVENTURISM AND KEEPING SUPPLY OF MILITARY EQUIPMENT TO DPRK AT SOMETHING LIKE CURRENTLY ANTICIPATED LEVELS, DOES NOT ALTER PRESENT POLITICAL OR MILITARY STANCE IN NORTHEAST

ASIA. SHOULD FUTURE DEVELOPMENTS FAIL TO SUSTAIN THIS ASSUMPTION, I BELIEVE LEVEL AND NATURE OF US SECURITY ASSISTANCE TO ROK WILL HAVE TO BE RE-EXAMINED.
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Message Attributes

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Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t197504104/baaaauhf.tel
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Review Markings:

Margaret P. Grafeld
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Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
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Subject: n/a
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To: STATE
SECDEF INFO CINCPAC
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